

S
51.7232
72hV
1981

PLEASE RETURN

STATE DOCUMENTS COLLECTION

JUL 27 1982

MONTANA STATE LIBRARY
930 E Lyndale Ave.
Helena, Montana 59601

State of Montana

Report to the Legislature

HELENA VOCATIONAL-TECHNICAL CENTER

Report on the Examination
of Financial Statements
Fiscal Year Ended June 30, 1981



OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MONTANA
STATE CAPITOL • HELENA

State of Montana

Report to the Legislature

HELENA VOCATIONAL-TECHNICAL CENTER

Report on the Examination
of Financial Statements
Fiscal Year Ended June 30, 1981

TABLE OF CONTENTS

	<u>Page</u>
Elected and Administrative Officials	iii
Summary of Recommendations	iv
Introduction	1
Center Background and Organization	2
General Fund Reversions	3
House Bill 94	3
House Bill 483	5
Student Contact Hours	6
Computation	6
Expenditure Bidding Procedures	7
Merchandise Inventory	9
Beginning Bookstore Inventory	9
Inventory Value	9
Perpetual Records	10
Accounting Issues and Financial Statement Adjustments	11
Expenditures	11
Building Trades Inventory	12
Cash Transfer	13
Revenue Deferrals	14
Accounts Payable	14
Financial Statement Reporting	15
Expenditure Programs	15
Fund Structure	17
Fire Insurance	18
Residency Requirement	19

TABLE OF CONTENTS (Continued)

	<u>Page</u>
State Compliance	20
Bank Accounts	20
Payroll System	21
Internal Control	22
Cash	24
Timeliness of Deposits	24
Depositing Procedures	24
Recommendations of Prior Audit	25
Federal Compliance	26
Conclusion	26
Auditor's Report and Financial Statements	
Auditor's Report	27
Financial Statements	
Balance Sheet - June 30, 1981	30
Statement of Changes in Fund Balances For the Fiscal Year Ended June 30, 1981	31
Statement of Current Fund Revenues, Expenditures, and Other Changes For the Fiscal Year Ended June 30, 1981	32
Notes to the Financial Statements	33
Schedule of Full-Time Equivalent Students For the Fiscal Year Ended June 30, 1981	38
Schedule of Federal Grants and Subgrant Receipts, for the Fiscal Year Ended June 30, 1981	39
Agency Replies:	
Helena Vocational-Technical Center	40
Office of the Superintendent of Public Instruction	44
Office of Budget and Program Planning	50

ELECTED AND ADMINISTRATIVE OFFICIALS

HELENA VOCATIONAL-TECHNICAL CENTER

Alex Capdeville	Director
James Thomas	Assistant Director
Einar Brosten	Fiscal Administrator
Charles W. Wetterling	Accountant

OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION

Ed Argenbright	Superintendent and Executive Officer of Vocational Education
Gene Christiaansen	Assistant Superintendent for Vocational Education Services

HELENA SCHOOL DISTRICT #1

Board of Trustees

	<u>Term Expires</u>
Charles Hail, Chairman	1982
Dean Retz, Vice-Chairman	1983
John Romasko	1982
Ken Seyler	1982
Robert Biegler	1983
Gene Brown	1983
Terry Cosgrove	1983
Dr. James Glosser	1983
Paul Stahl	1984
Mignon Waterman	1984

Administrative Officials

Roger Eble	Superintendent
John Campbell	Business Manager

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Helena Vocational-Technical Center, the Office of Public Instruction, and the Office of Budget and Program Planning are included in the back of this report.

	<u>Page</u>
1 The Office of Public Instruction revert the overcollected millage to the state General Fund in accordance with House Bill 94.	5
<u>OPI Reply:</u> Concur. See page 44.	
2 The Office of Budget and Program Planning comply with House Bill 483 and decrease the General Fund appropriation for overcollections.	5
<u>OPI Reply:</u> Concur. See page 44.	
<u>OBPP Reply:</u> Concur. See page 50.	
3A The Office of Public Instruction work with the center to monitor compliance for the computation of student contact hours.	7
<u>Agency Reply:</u> Concur. See page 41.	
<u>OPI Reply:</u> Concur. See page 45.	
3B The center consistently compute student contact hours based on Office of Public Instruction guidelines.	7
<u>Agency Reply:</u> Concur. See page 41.	
<u>OPI Reply:</u> Concur. See page 45.	
4 The school district comply with section 20-9-204, MCA, and award contracts to the lowest responsible bidder.	8
<u>Agency Reply:</u> Concur. See page 41.	
<u>OPI Reply:</u> Concur. See page 45.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
5A Value merchandise inventory on the cost and FIFO basis.	11
<u>Agency Reply:</u> Concur. See page 41.	
<u>OPI Reply:</u> Do not concur. See page 45.	
5B Maintain accurate perpetual inventory records.	11
<u>Agency Reply:</u> Concur. See page 41.	
<u>OPI Reply:</u> Concur. See page 46.	
6 Properly record expenditures in accordance with generally accepted accounting principles.	12
<u>Agency Reply:</u> Concur. See page 41.	
<u>OPI Reply:</u> Concur. See page 46.	
7 Record significant building trades inventory as an asset in accordance with generally accepted accounting principles.	13
<u>Agency Reply:</u> Concur. See page 41.	
<u>OPI Reply:</u> Concur. See page 46.	
8 Work with the Office of Public Instruction to establish appropriate administering agencies for its accounting entities.	14
<u>Agency Reply:</u> Concur. See page 41.	
<u>OPI Reply:</u> Concur. See page 46.	
9 Defer all applicable revenue at fiscal year-end in accordance with state policy.	14
<u>Agency Reply:</u> Concur. See page 42.	
<u>OPI Reply:</u> Concur. See page 46.	
10 Properly record a liability for its share of the College Work-Study payroll at fiscal year-end.	15
<u>Agency Reply:</u> Concur. See page 42.	
<u>OPI Reply:</u> Concur. See page 46.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
11 In cooperation with the Office of Public Instruction and the Department of Administration, develop expenditure programs and budgets in compliance with generally accepted accounting principles.	17
<u>Agency Reply:</u> Concur. See page 42.	
<u>OPI Reply:</u> Concur. See page 47.	
12 In cooperation with the Office of Public Instruction, ensure that their fund structure is in accordance with generally accepted accounting principles.	18
<u>Agency Reply:</u> Concur. See page 42.	
<u>OPI Reply:</u> Concur. See page 47.	
13 Maintain adequate fire insurance coverage on it's building contents.	19
<u>Agency Reply:</u> Concur. See page 42.	
<u>OPI Reply:</u> Concur. See page 47.	
14 Work with the Office of Public Instruction and establish a policy to more thoroughly document student residency status.	20
<u>Agency Reply:</u> Concur. See page 42.	
<u>OPI Reply:</u> Concur. See page 47.	
15 Deposit all moneys in the state treasury or obtain permission from the Department of Administration to allow the moneys to be held outside the state treasury.	20
<u>Agency Reply:</u> Concur. See page 43.	
<u>OPI Reply:</u> Do not concur. See page 48.	
16 Comply with the legislature's intent that vocational-technical centers be on central payroll or seek legislative authorization to maintain their own payroll system.	21
<u>Agency Reply:</u> Concur. See page 43.	
<u>OPI Reply:</u> Concur. See page 48.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
17A Deposit cash in compliance with state law.	25
<u>Agency Reply:</u> Concur. See page 43.	
<u>OPI Reply:</u> Concur. See page 48.	
17B Adequately separate cash collection and deposit duties.	25
<u>Agency Reply:</u> Concur. See page 43.	
<u>OPI Reply:</u> Concur. See page 48.	

INTRODUCTION

We performed a financial compliance audit of the Helena Vocational-Technical Center for the fiscal year ended June 30, 1981.

Our audit objectives were to:

1. Present an opinion on the center's financial statements prepared in accordance with generally accepted accounting principles for the fiscal year ended June 30, 1981;
2. Determine that the center complied with applicable laws and regulations;
3. Verify enrollment and student contact hours reported by the center; and
4. Make recommendations for improvement in the management and internal controls of the center.

A separate audit report will be issued on the center's financial aid programs for fiscal year 1980-81.

Beginning July 1, 1980, the center adopted the Statewide Budgeting and Accounting System (SBAS) to provide financial accountability and comparability to center management. The center's payroll is processed by the school district.

In order to maintain its accounting records in accordance with generally accepted accounting principles (GAAP), the center also changed from the cash basis of accounting to the full accrual basis of accounting as of July 1, 1980. Under the cash basis no income was recorded until collections were received and expenditures were not recorded until payments were made. On the full accrual basis of accounting revenue is reported when earned and expenditures recorded when materials or services are received. In a non-governmental operation this change can be easily accomplished. When an operation is limited by its appropriational spending authority, the change becomes more difficult.

When adopting full accrual accounting, the center should have accrued certain June 1980 expenditures that were not paid until July 1980. However, in making the change from the cash to the full accrual basis the center could not accrue all June expenditures because of insufficient balances remaining in the fiscal year 1979-80 appropriations. In order to comply with GAAP, the center adjusted its financial statements to reflect certain unrecorded accruals. In one case, as discussed on pages 11 and 12, the center did not adjust its financial statements because their budget authority was exhausted.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the center's director, the superintendent of schools, the Office of Public Instruction, and their staffs for their cooperation and assistance during our audit.

CENTER BACKGROUND AND ORGANIZATION

The Helena center was founded in 1939 when the Office of Public Instruction designated five centers for Montana. This designation was reaffirmed by the legislature in 1969 when the five centers were established by statute.

The center enrolled 725 students in fall quarter of 1980. The student faculty ratio, based on this 1980 enrollment figure, was 20.7 to 1. The center currently offers instruction in fourteen major programs as follows:

1. Accounting/Bookkeeping
2. Agricultural Mechanics
3. Automobile Mechanics
4. Aviation Maintenance Technician
5. Building Trades
6. Business Data Processing
7. Combination Welding
8. Consumer Electronics Technology
9. Diesel Mechanics
10. Industrial Electronics Technology
11. Machine Shop
12. Practical Nursing
13. Secretarial
14. Truck and Coach Mechanics

GENERAL FUND REVERSIONS

House Bill 94

House Bill 94, enacted by the 1981 Legislature, through the Office of Public Instruction (OPI), gave a lump-sum supplemental appropriation to all state vocational-technical centers of \$235,645 for fiscal year 1980-81 expenditures. The bill stipulates that "millage received by the centers from the 1½ mill levy over \$703,274 will revert a like amount of general fund." The center distribution of the estimated millage of \$703,274, illustrated on Table I, was determined by OPI personnel. Actual millage collections totaled \$715,751.

TABLE I
Estimated and Actual Collections Per HB 94

	Estimated Millage Per House Bill 94 ¹	Actual Millage Collections	Over (Under) Collected
Billings	\$257,738	\$265,362	\$ 7,624
Butte	72,900	79,543	6,643
Helena	78,523	81,813	3,290
Missoula	169,454	173,991	4,537
Total Overcollected			<u>22,094</u>
Great Falls	<u>124,659</u>	<u>115,042</u>	<u>(9,617)</u>
Total	<u>\$703,274</u>	<u>\$715,751</u>	<u>\$12,477</u>

¹Estimated by the Office of Public Instruction

Source: Compiled by the Office of the Legislative Auditor

The Office of Public Instruction (OPI) should revert \$12,477 to the state General Fund for fiscal year-end 1980-81 millage overcollections. As of March 1982, the reversion had not been completed.

If the Billings, Butte, Helena, and Missoula centers each revert a share of the \$12,477, OPI will still report a net overcollection of \$9,617 between these four centers based on their original estimates of collections per center. The OPI has not decided whether to let the four centers that overcollected their millage keep the \$9,617 or transfer the overcollection to the Great Falls center's deficit.

House Bill 483, enacted by the 1979 Legislature, states "The superintendent of public instruction may transfer funds . . . between vocational education centers." Therefore, OPI would have the authority to transfer the \$9,617 to the Great Falls center. This authority was not modified by House Bill 94.

RECOMMENDATION #1

WE RECOMMEND THE OFFICE OF PUBLIC INSTRUCTION REVERT THE OVERCOLLECTED MILLAGE TO THE STATE GENERAL FUND IN ACCORDANCE WITH HOUSE BILL 94.

House Bill 483

House Bill 483, enacted by the 1979 Legislature, states "the approving authority shall decrease the General Fund appropriation of the agency by the amount of funds received from other sources in excess of the appropriation provided in this act . . ." "Other sources" are made up of tuition, millage, and federal grants for the vo-tech centers.

The center was appropriated \$493,253 as "other appropriated funds" for fiscal year 1980-81. It actually collected \$517,504, or \$24,251 more than it was appropriated.

The Governor's Office of Budget and Program Planning, the approving authority for executive branch agencies, should have reduced the center's General Fund appropriation by \$24,251 or had this excess revert to the state General Fund at fiscal year-end 1980-81.

RECOMMENDATION #2

WE RECOMMEND THE OFFICE OF BUDGET AND PROGRAM PLANNING COMPLY WITH HOUSE BILL 483 AND DECREASE THE GENERAL FUND APPROPRIATION FOR OVERCOLLECTIONS.

STUDENT CONTACT HOURS

Computation

The Office of Public Instruction (OPI) requires each center to report weekly and twelfth school day student contact hour counts at the end of each quarter. We found inconsistencies in the calculation of student contact hours at the center.

One center employee calculates the twelfth day student contact hours by program using this formula:

$$A \times \left(\frac{B}{5}\right) \times C - D$$

A = number of students enrolled on the report date

B = number of hours the program has class per week

C = number of class days per quarter

D = number of hours of absentees on that day

Another center employee calculates the twelfth day student contact hours by using the number of class hours the program had on the day of the report instead of using the number of hours the program has class per week divided by five. In another case, we noted the center used 55 days in their computation, instead of 54, the actual number of days in the quarter.

OPI has not adequately explained their guidelines to the centers nor monitored compliance for computing student contact hours. Because of this, the center is not sure how to compute them. Center employees said they had telephoned OPI on two different occasions for instructions and got a different method each time.

Because funding for the five centers can be affected by the student contact hours that the centers report, it is important that all centers use the same method of computation for comparability.

RECOMMENDATION #3

WE RECOMMEND:

- A. THE OFFICE OF PUBLIC INSTRUCTION WORK WITH THE CENTER TO MONITOR COMPLIANCE FOR THE COMPUTATION OF STUDENT CONTACT HOURS.
- B. THE CENTER CONSISTENTLY COMPUTE STUDENT CONTACT HOURS BASED ON OFFICE OF PUBLIC INSTRUCTION GUIDELINES.

EXPENDITURE BIDDING PROCEDURES

Students in the aviation and mechanics programs are required to purchase two pair of coveralls and have them cleaned weekly.

The center solicited bids from firms for the purchase and cleaning of the coveralls in accordance with section 20-9-204(3), MCA, which states "whenever the estimated cost of . . . purchasing supplies for the district exceeds the sum of \$4,000, the purchase made shall be by contract." The fiscal year 1980-81 contract amount for the coveralls and their cleaning exceeded \$10,000.

Section 20-9-204(3&4), MCA, also states "each such contract must be let to the lowest responsible bidder after advertisement for bids. Whenever bidding is required, the trustees shall award the contract to the lowest bidder except that the trustees may reject any or all bids."

The purpose of these provisions is to provide maximum service at the lowest possible cost to the public school system. There is no provision in the school purchasing laws which provides for discrimination between vendors. The only grounds for rejecting a

bid would be a factual determination that the lowest bidder is not a "responsible bidder." This would have to be determined on a case-by-case basis, depending on the facts presented.

The lowest bidder, an out-of-Helena vendor, was not awarded the contract for purchase and cleaning of coveralls. The Board of Trustees wanted to give preference to local vendors so they awarded the contract to the second lowest bidder, a vendor from Helena. The Board does not have any written policy regarding local preference. The fact that one bidder is from Helena and another bidder is from out of town is not sufficient grounds to reject the out-of-town bidder for not being a "responsible bidder."

School district personnel stated that because they were spending student funds they were not required to follow state purchasing laws. However, section 20-7-325, MCA, states "the expenditures of the money deposited in the state treasury shall be made in accordance with procedures established by the Department of Administration." These student funds are deposited in the state treasury which makes section 20-9-204, MCA, applicable. Therefore, the school district should comply with state law when awarding contracts.

RECOMMENDATION #4

WE RECOMMEND THE SCHOOL DISTRICT COMPLY WITH SECTION 20-9-204, MCA, AND AWARD CONTRACTS TO THE LOWEST RESPONSIBLE BIDDER.

MERCHANDISE INVENTORY

The center reports two different types of merchandise inventory. One type is supplies for the center's resale or work order system. The students service and repair items as part of their training. The cost of this inventory plus an overhead markup is charged to the customer. The other type is supplies for operating the center's classroom and administrative functions. These are referred to as bookstore inventory.

Problems we noted in the center's reporting of these inventories are outlined below.

Beginning Bookstore Inventory

We did not observe the taking of the physical inventory for the bookstore at June 30, 1980. Other alternative auditing procedures were applied to test the beginning inventory. Only three of eleven items tested could be traced to cost documents from the center's inventory records. We also attempted to reconstruct beginning inventory but could not because the center improperly recorded certain non-bookstore inventory revenues within their bookstore sales. Bookstore sales associated with the goods for resale expenditures should be reported separately to account for only the bookstore inventory activity.

As a result of these inadequate records, we were unable to determine whether recorded bookstore merchandise inventory of \$25,793 at June 30, 1980 was reasonable.

Inventory Value

The center recorded all bookstore inventory at retail (selling price) rather than actual cost. Inventories should be valued on

the basis of cost according to generally accepted accounting principles. Because of this error, the June 30, 1981 bookstore inventory of \$18,835 is overstated by \$1,884 in the auxiliary fund. The center adjusted its financial statements for this error.

Merchandise inventory, valued at FIFO (first-in/first-out) should be sold at cost plus markup with the first items purchased being the first items sold. In one case we noted that an inventory item was sold for less than its cost. Center personnel stated that this was done to accommodate the students. If an inventory item cost and was sold at one price during a quarter the center would not raise the selling price to another student even if a subsequent shipment cost more than the first.

Our prior audit report recommended the center price their merchandise according to the invoices, which would be cost plus freight.

Perpetual Records

Quantities counted for four of ten sample items from the June 30, 1981 physical inventory listing did not agree to the center's perpetual records. According to one center employee, the perpetual records do not necessarily contain complete and accurate information. Purchases and sales may not always be recorded in the records accurately, or at all.

The center should ensure that perpetual records are accurately maintained and tie to the physical count at year-end.

RECOMMENDATION #5

WE RECOMMEND THE CENTER:

- A. VALUE MERCHANDISE INVENTORY ON THE COST AND FIFO BASIS.
- B. MAINTAIN ACCURATE PERPETUAL INVENTORY RECORDS.

ACCOUNTING ISSUES AND FINANCIAL STATEMENT ADJUSTMENTS

Several accounting and recording problems were noted during our audit testing which resulted in financial statement adjustments. The majority of these problems occurred because of the center's unfamiliarity with SBAS and changing from the cash to the accrual basis of accounting. The center should work with the Office of Public Instruction to implement procedures to correct the accounting problems described below.

Expenditures

The center paid a state workers' compensation fund premium in September 1981, covering the period from January 1, 1981, through June 30, 1981. Full accrual accounting as required by generally accepted accounting principles, reports expenditures when the materials or services are received. Therefore, this premium should have been recorded as an expenditure and liability at June 30, 1981, rather than expensed in fiscal year 1981-82.

The center paid two six-month premiums during fiscal year 1980-81. The center did not record the premium from January 1, 1981 through June 30, 1981 in fiscal year 1980-81 because their budget authority for this purpose was exhausted.

As discussed on page 18 of this report, the center's obsolete equipment accounting entity is inappropriately reported in the Restricted Fund. The activity in this account includes receipts from the sale of obsolete equipment and expenditures to replace the equipment. It does not fall within the definition of a Restricted Fund because the funds are not limited by donors and other external restrictions. If the fiscal year 1980-81 expenditures in this account of \$11,591 had been appropriately reported in the Current Unrestricted Fund the center would have overspent its Current Unrestricted Fund capital expenditures appropriation.

The center should report this activity in the proper fund and obtain a legislative appropriation to spend from it.

RECOMMENDATION #6

WE RECOMMEND THE CENTER PROPERLY RECORD EXPENDITURES IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

Building Trades Inventory

The center offers a building trades program which provides the student with experience in the actual construction of houses. Contrary to generally accepted accounting principles, supplies and materials, including land, for these houses are expensed throughout construction.

The center should accumulate the expenses for these houses as an asset until the house is sold. By expensing these costs, the center's accounting records were understated for inventory by \$81,460 and overstated for expenditures by \$7,642 at June 30, 1981, in the Designated Fund. Beginning fund balance was understated by \$73,818 in the same fund. The center adjusted its financial statements to properly reflect the building trades inventory.

RECOMMENDATION #7

WE RECOMMEND THE CENTER RECORD SIGNIFICANT BUILDING TRADES INVENTORY AS AN ASSET IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

Cash Transfer

The Office of Public Instruction is the administering agency for ten of the center's accounting entities. These accounting entities include millage and tuition, federal funds, primary operations pool, and all financial aid programs.

As the administering agency, all of the center's cash balances within these entities at year-end automatically transferred to OPI during the SBAS closing process. This resulted in the understatement of cash and fund balance of \$37,120 in the Current Unrestricted Fund and \$3,726 in the Current Restricted Fund within the center's accounting records. Cash and Due to Federal Government were understated by \$644 in the Agency Fund.

The center should work with the Office of Public Instruction to establish the appropriate administering agency for these accounting entities and report the cash on its own accounting records.

The center's financial statements were adjusted to report the cash at June 30.

RECOMMENDATION #8

WE RECOMMEND THE CENTER WORK WITH THE OFFICE OF PUBLIC INSTRUCTION TO ESTABLISH APPROPRIATE ADMINISTERING AGENCIES FOR ITS ACCOUNTING ENTITIES.

Revenue Deferrals

The center's CETA/CEP grant had \$6,961 in cash at June 30, 1981 that had not yet been expended but was recorded as fiscal year 1980-81 revenue. The Department of Administration's Management Memo 2-81-1 and generally accepted accounting principles require that when federal grants are received in advance of anticipated expenditures, any portion considered not earned as of fiscal year-end should be recorded as deferred revenue. The center adjusted its financial statements for this error.

RECOMMENDATION #9

WE RECOMMEND THE CENTER DEFER ALL APPLICABLE REVENUE AT FISCAL YEAR-END IN ACCORDANCE WITH STATE POLICY.

Accounts Payable

At June 30, the center's June college work-study payroll had not yet been paid. The center correctly set up an accounts receivable in the Restricted Fund for both the on and off-campus employer's share of the payroll costs.

The center's share as an on-campus employer amounted to \$1,084. The money to pay their share comes from the Current Unrestricted Fund. An accounts payable was not set up in this fund for the \$1,084. This understated payables and overstated beginning fund balance at June 30, 1980 on the center's accounting records. The center adjusted its financial statements for the misstatements.

RECOMMENDATION #10

WE RECOMMEND THE CENTER PROPERLY RECORD A LIABILITY FOR ITS SHARE OF THE COLLEGE WORK-STUDY PAYROLL AT FISCAL YEAR-END.

FINANCIAL STATEMENT REPORTING

Following is a discussion of adjustments we recommend the center, in cooperation with the Department of Administration and OPI, make to the center's accounting records and the SBAS Vo-Tech Procedures Manual to comply with generally accepted accounting principles.

Expenditure Programs

Montana's vocational-technical centers have only one expenditure program, "Vo-tech operations." Programs are used to identify the basic purposes for which moneys have been expended. Generally accepted accounting principles require the reporting of expenditures by function. Although the center's financial statements were prepared in accordance with GAAP as detailed in College and University Business Administration (CUBA), it was difficult to

obtain necessary reporting categories from SBAS when currently using only the one expenditure program. Making this change on SBAS to provide for more than one expenditure program would facilitate the financial statement preparation and provide more detailed management information.

The expenditure categories required by GAAP are Instruction, Research, Public Service, Academic Support, Student Services, Institutional Support, Operation and Maintenance of Plant, Scholarships and Fellowships, Transfers, and Auxiliary.

The center budgets all expenditures by using a program concept rather than by category in accordance with state appropriation and OPI requirements.

Section 20-7-323, MCA, defines the three budget categories to be used by post secondary vocational-technical centers as:

- 1) maintenance and operation
- 2) construction
- 3) ancillary services

To provide center management with useful budget information, the budgets should be reported by function.

The Superintendent of Public Instruction, as sole authority for the center's programs and budget approval, should seek changes to the law on program and budget categories to comply with generally accepted accounting principles.

RECOMMENDATION #11

WE RECOMMEND THE CENTER, IN COOPERATION WITH THE OFFICE OF PUBLIC INSTRUCTION AND THE DEPARTMENT OF ADMINISTRATION, DEVELOP EXPENDITURE PROGRAMS AND BUDGETS IN COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

Fund Structure

The center's state appropriations, millage and tuition, and federal funds are initially recorded in the SBAS General, Earmarked Revenue, and Federal and Private Revenue Funds, respectively. Subsequently, this money is transferred to the center's Current Funds to cover expenditures. Generally accepted accounting principles for vocational-technical centers do not allow the use of the General, Earmarked Revenue, and Federal and Private Revenue Funds.

Sources of financing for post secondary vocational-technical center budgets, as described by section 20-7-324, MCA, should be accounted for initially by the Office of Public Instruction (OPI) in the General Fund, Earmarked Revenue Fund, or Federal and Private Revenue Fund, as appropriate. OPI should then make transfers from these funds to the center's Current Unrestricted Fund to cover expenditures. Other financing sources not covered by section 20-7-324, MCA, such as the Additional (Voted) Levy (section 20-7-326, MCA), student financial aid money or other money not distributed through OPI to the center, should be recorded in the appropriate fund in the center's accounting records.

At June 30, 1981 the center's accounting records reported a \$2,514 receivable and a \$5,190 liability in the Earmarked Revenue Fund that should have been shown within the center's Current Funds. The financial statements were adjusted for these under-statements.

The center records their Rural Electric Coop (REC) program, building use fees, scholarships, the off-campus employer share of CWS, and obsolete equipment within the Restricted Fund. The REC program, certain scholarships, and the off-campus employer share of CWS funds are held by the center in a custodial capacity for other organizations and individual students. Because the center has no control over these funds they should be recorded in the Agency Fund. The building use fees and obsolete equipment would more appropriately be classified within the Current Unrestricted Fund.

RECOMMENDATION #12

WE RECOMMEND THE CENTER, IN COOPERATION WITH THE OFFICE OF PUBLIC INSTRUCTION, ENSURE THAT THEIR FUND STRUCTURE IS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

FIRE INSURANCE

The center is insured for fire, liability, and automobile through the school district's insurance policy.

In fiscal year 1980-81 fire insurance coverage for the center's Roberts Street and Poplar Street building contents was \$553,500

and \$10,800, respectively. The cost of the buildings equipment contents amounted to \$1,079,715. This equipment amount included equipment on loan from another vo-tech center and from federal excess property. During this time the center's building contents were underinsured by at least \$515,000.

RECOMMENDATION #13

WE RECOMMEND THE CENTER MAINTAIN ADEQUATE FIRE INSURANCE COVERAGE ON IT'S BUILDING CONTENTS.

RESIDENCY REQUIREMENT

Payment of out-of-state tuition is dependent on whether the student applicant indicates he/she is an out-of-state student on the application. The center does not perform a review of supporting documentation to substantiate the application.

Specific criteria should be established to ensure accuracy of the number of non-resident students. The center could, for example, adopt an application similar to the university systems. This application includes such questions as where is your car licensed, where is your driver's license issued, and when and where did you file your latest state tax return. By asking these questions and reviewing the answers for reasonableness, the chance of having proper in-state and out-of-state classification is increased.

RECOMMENDATION #14

WE RECOMMEND THE CENTER WORK WITH THE OFFICE OF PUBLIC INSTRUCTION AND ESTABLISH A POLICY TO MORE THOROUGHLY DOCUMENT STUDENT RESIDENCY STATUS.

STATE COMPLIANCE

The matters described below represent non-compliance with state policy, state law, or legislative appropriation intent.

Bank Accounts

The center had two checking accounts and one savings account with cash balances at June 30, 1980 and 1981 that were not reported on SBAS. These revolving cash funds were also not authorized through the Department of Administration.

Sections 2-1900.20 and 2-1920.10, Montana Operations Manual, require authorization to establish, increase, or decrease a revolving cash account. When approval to establish the account has been obtained from the Department of Administration, the non-treasury account must be recorded on SBAS.

Our prior audit of the center included a recommendation that the center record all cash balances on its accounting records.

RECOMMENDATION #15

WE RECOMMEND THE CENTER DEPOSIT ALL MONEYS IN THE STATE TREASURY OR OBTAIN PERMISSION FROM THE DEPARTMENT OF ADMINISTRATION TO ALLOW THE MONEYS TO BE HELD OUTSIDE THE STATE TREASURY.

Payroll System

House Bill 483, 46th Legislature, states that "as of July 1, 1980 . . . personal service expenditures [of the vocational education centers] shall be processed through the central payroll system established pursuant to section 2-18-401, MCA."

Because the center has certain unique payroll processing requirements, it did not adopt the central payroll system. Section 2-18-401, MCA, allows the State Auditor to make exceptions from the use of a uniform state central payroll system for such periods as he determines necessary. State Auditor's Office personnel stated that they exempted all Vo-Tech centers from using central payroll, although they could not provide us with written documentation of this exemption. The Vo-Tech SBAS Procedures Manual prepared by the Department of Administration states that all Vo-Tech employees will continue to be paid through the school district's payroll system.

To comply with legislative intent as stated in House Bill 483, the center should adopt the state central payroll system or seek legislative authorization to maintain their own payroll system.

RECOMMENDATION #16

WE RECOMMEND THE CENTER COMPLY WITH THE LEGISLATURE'S INTENT THAT VOCATIONAL-TECHNICAL CENTERS BE ON CENTRAL PAYROLL OR SEEK LEGISLATIVE AUTHORIZATION TO MAINTAIN THEIR OWN PAYROLL SYSTEM.

INTERNAL CONTROL

We have examined the financial statements of the Helena Vocational-Technical Center for the fiscal year ended June 30, 1981, and have issued our report thereon dated November 3, 1981. As part of our examination, we made a study and evaluation of the system of internal accounting control of the Helena Vocational-Technical Center to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. For the purpose of this report, we have classified the significant internal accounting controls in the following categories: revenue, payroll, expenditures, cash, accounts receivable, inventory, and plant, property, and equipment. Our study included all of the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the center's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of the Helena Vocational-Technical Center is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives

of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Helena Vocational-Technical Center taken as a whole or on any of the categories identified in the first paragraph. However, our study and evaluation disclosed a condition that we believe resulted in more than a relative low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the Helena Vocational-Technical Center may occur and not be detected within a timely period. This condition relating to cash depositing procedures is discussed on page 24.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the 1980-81 financial statements and this report does not

affect our report on the financial statements dated November 3, 1981.

The preceding five paragraphs are intended solely for the use of management and the legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon acceptance by the Legislative Audit Committee, is a matter of public record.

CASH

Timeliness of Deposits

Section 17-6-105, MCA, states "all monies received shall be deposited when the accumulated amount of coin and currency exceeds \$100 or total collections exceed \$500. All monies collected shall be deposited at least weekly."

We selected a sample of 15 deposits occurring throughout fiscal year 1980-81. Of the 15 sample deposits, 13 were untimely based on the above criteria. One sample item included a check for \$7,765 that was held 7 days before it was deposited.

The state loses General Fund interest when deposits are not made in a timely manner. There is also potential for a greater loss if theft or destruction should occur at the center.

The center's policy of making weekly deposits unless cash, excluding checks, exceeds \$6,000 is not in compliance with state law.

Depositing Procedures

The telephone operator at the center's business office reconciles money collected to the receipts issued. The center's bookkeeper then prepares the deposit and reconciles the money and receipts again. The accountant then makes the actual deposit.

The telephone operator should maintain the receipts and reconcile them to the bank deposit receipt. This procedure would provide assurance that all moneys collected were actually deposited without error.

RECOMMENDATION #17

WE RECOMMEND THE CENTER:

- A. DEPOSIT CASH IN COMPLIANCE WITH STATE LAW.
- B. ADEQUATELY SEPARATE CASH COLLECTION AND DEPOSIT DUTIES.

RECOMMENDATIONS OF PRIOR AUDIT

We performed an audit of the center for the fiscal year ended June 30, 1978. The report contained 50 recommendations which are still applicable to current center operations. Of the 50 recommendations, 45 have been implemented or partially implemented, and 5 have not been implemented.

Various sections of this report, as listed below, include discussion of those recommendations on which the center has not taken adequate corrective action.

<u>Report Section</u>	<u>Discussed on Page</u>
Inventory Value	9
Timeliness of Deposits	24
Revenue Deferrals	14
Expenditure Bidding Procedures	7
Bank Accounts	20

FEDERAL COMPLIANCE

The center received federal vocational education funds from the Office of Public Instruction, federal Comprehensive Employment Training Act (CETA) moneys, and Adult Basic Education (ABE) grants during our audit period.

The audit of the ABE grants was performed in accordance with the requirements in the US Office of Management and Budget (OMB) Circular A-110. This circular provides standards for uniform administrative requirements for grants and other agreements with institutions of higher education, hospitals, and other nonprofit organizations.

We reviewed the major compliance areas in the ABE grants. These areas included compliance with the specific grant agreement regarding financial reporting and cost allowability. We found the center to be in compliance in these areas. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

Because the CETA program was audited on a statewide basis by other auditors, we did not duplicate their compliance testing.

CONCLUSION

Several of the comments and recommendations in this report result from a lack of policy direction from the Office of Public Instruction and questions as to which state laws and regulations are applicable to the center. These and other concerns would be resolved if there were a clarification of the center's status as a state agency and the applicability of various state laws and policies to the center.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

Office of the Legislative Auditor



STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122

ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Balance Sheet of the various funds of the Helena Vocational-Technical Center as of June 30, 1981, and the related Statements of Changes in Fund Balances and Current Fund Revenues, Expenditures, and Other Changes for the year then ended. Except as indicated in the following paragraph, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The accompanying Statement of Changes in Fund Balances of the Auxiliary Fund's July 1, 1980 fund balance includes merchandise inventory of \$25,793. This amount represents 93 percent of the center's auxiliary June 30, 1980 fund balance. We did not observe the taking of the physical inventory as of June 30, 1980, and we were unable to satisfy ourselves regarding inventory quantities and review evidence supporting the cost of the inventory by means of other adequate alternative auditing procedures.

The center kept its records and has prepared its financial statements for previous years on the cash basis with no recognition having been accorded accounts receivable, accounts payable,

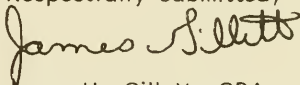
or accrued expenses. At the beginning of the year the center adopted the full accrual basis of accounting. The July 1, 1980 fund balance was restated through prior period adjustments for material differences between reporting on the cash and accrual basis and for other financial statement error corrections. It was not practical to determine what adjustments would be necessary in the financial statements of the preceding year to restate results of operation in conformity with the accounting principles used in the current year.

In our opinion, except for the matter discussed in paragraph two, the financial statements referred to above present fairly the financial position of all funds of the Helena Vocational-Technical Center as of June 30, 1981, and the changes in fund balances and the current fund revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Full-Time Equivalent (FTE) Students and Schedule of Federal Grant Receipts are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements;

and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

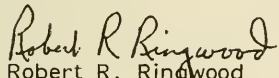
Respectfully submitted,



James H. Gillett, CPA
Principal Audit Manager
Financial/Compliance & Contract Audits

November 3, 1981

Approved by:



Robert R. Ringwood
Legislative Auditor

HELENA VOCATIONAL-TECHNICAL CENTER

BALANCE SHEET

JUNE 30, 1981

CURRENT FUNDS

	<u>Unrestricted</u>	<u>Designated</u>	<u>Auxiliary</u>	<u>Restricted</u>	<u>Agency Fund</u>	<u>Plant Fund</u>
Receivable	\$49,923	\$ 6,207	\$ 1,435	\$20,805	\$17,044	
ity Loans Receivable	855	25,977	1,234	643		
Charge		2,200	7,184	2,468	1,100	
se Inventory	7,758					
ans		102,661	16,951			
t in Plant:				489		
						\$ 169,700
						2,795,550
						935,336
Assets	<u>\$58,536</u>	<u>\$137,045</u>	<u>\$26,804</u>	<u>\$24,405</u>	<u>\$18,144</u>	<u>\$3,900,586</u>
<u>AS AND FUND BALANCES</u>						
Payable	\$13,527	\$ 10,046	\$ 1,952	\$ 1,815	\$ 2,451	
penditures	5,936					
Collected in Advance	5,190					
ty Loans Payable		8,200		6,961	157	
al Government		20,000		700	4,052	
ment in Plant						\$3,900,586
eral Government					2,645	
d in Trust for Others					8,839	
ce	33,883	98,799	24,852	14,929		
Liabilities and Fund Balances	<u>\$58,536</u>	<u>\$137,045</u>	<u>\$26,804</u>	<u>\$24,405</u>	<u>\$18,144</u>	<u>\$3,900,586</u>

nying Summary of Significant Accounting Policies and Notes to Financial Statements.

HELENA VOCATIONAL-TECHNICAL CENTER
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

	CURRENT FUNDS				PLANT FUND	
	Unrestricted	Designated	Auxiliary	Restricted	Renewals and Replacements	Investment in Plant
REVENUES AND OTHER ADDITIONS:						
Restricted Current Fund Revenues	\$1,593,713	\$308,537	\$147,701			
General Grants and Contracts - Restricted				\$335,653		
Depreciation for Equipment (Current Year)						\$ 28,398
Total Revenues and Other Additions	<u>1,593,713</u>	<u>308,537</u>	<u>147,701</u>	<u>335,653</u>	<u>\$ -0-</u>	<u>28,398</u>
EXPENDITURES AND OTHER DEDUCTIONS:						
Educational and General Expenditures	1,519,256	278,569		327,164		
Auxiliary Enterprises Expenditures			150,357			
Direct Costs Recovered				12,733		
Depreciation for Equipment					28,398	
Total Expenditures and Other Deductions	<u>1,519,256</u>	<u>278,569</u>	<u>150,357</u>	<u>339,897</u>	<u>28,398</u>	<u>-0-</u>
TRANSFERS AMONG FUNDS - ADDITIONS/(DEDUCTIONS):						
Renewals and Replacements	(28,398)				28,398	
Year Adjustment		(526)	(196)	(87)		
Reversion of FY 80 Accrual		(698)				
Total Transfers	<u>(28,398)</u>	<u>(1,224)</u>	<u>(196)</u>	<u>(87)</u>	<u>28,398</u>	<u>-0-</u>
Increase (Decrease) for the Year	<u>46,059</u>	<u>28,744</u>	<u>(2,852)</u>	<u>(4,331)</u>	<u>-0-</u>	<u>28,398</u>
Balance at Beginning of Year	<u>4,090</u>	<u>1,483</u>	<u>27,704</u>	<u>19,665</u>	<u>-0-</u>	<u>3,872,188</u>
Period Adjustments (Note 5)	(16,266)	68,572		(405)		
Adjusted Fund Balance at Beginning of Year	<u>(12,176)</u>	<u>70,055</u>	<u>27,704</u>	<u>19,260</u>	<u>-0-</u>	<u>3,872,188</u>
Balance at End of Year	<u>\$ 33,883</u>	<u>\$ 98,799</u>	<u>\$ 24,852</u>	<u>\$ 14,929</u>	<u>\$ -0-</u>	<u>\$3,900,586</u>

Accompanying Summary of Significant Accounting Policies and Notes to Financial Statements

HELENA VOCATIONAL-TECHNICAL CENTER
STATEMENT OF CURRENT FUND REVENUES,
EXPENDITURES, AND OTHER CHANGES
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

	CURRENT FUNDS			
	Unrestricted	Designated	Auxiliary	Restricted
REVENUES:				
Tuition - Millage	\$ 250,159			
Federal Appropriation	281,824			
State Appropriation	1,039,079			
Local Appropriation	22,651			
Federal Grants & Contracts				\$282,493
State Grants & Contracts				15,507
Local Grants & Contracts				13,659
Private Gifts, Grants, & Contracts				649
Sales & Services of Educational Activities		\$308,537		
Sales & Services of Auxiliary Enterprises			\$147,701	
Other Revenues				14,856
Total Revenues	<u>1,593,713</u>	<u>308,537</u>	<u>147,701</u>	<u>327,164</u>
EXPENDITURES AND TRANSFERS:				
Educational and General				
Instruction	1,083,461	278,569		233,602
Student Services	92,264			
Institutional Support	125,309			58,660
Plant Operation & Maintenance	218,222			12,965
Scholarships & Fellowships				13,565
Total Educational and General Expenditures	<u>1,519,256</u>	<u>278,569</u>	<u>-0-</u>	<u>318,792</u>
Auxiliary Enterprises Expenditures			150,357	
Non-Educational Operations				8,372
Total Expenditures	<u>1,519,256</u>	<u>278,569</u>	<u>150,357</u>	<u>327,164</u>
Transfers:				
Renewals and Replacements	(28,398)			
Prior Year Adjustments		(526)	(196)	(87)
Adjustment to Fiscal Year 1979-80 Accruals		(698)		
Excess of Restricted Receipts Over Transfers to Revenues				(4,244)
Net Increase or Decrease in Fund Balances	<u>\$ 46,059</u>	<u>\$ 28,744</u>	<u>\$ (2,852)</u>	<u>\$ (4,331)</u>

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements.

HELENA VOCATIONAL-TECHNICAL CENTER

Notes to the Financial Statements

Fiscal Year Ended June 30, 1981

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS) with adjustments.

Basis of Accounting

The financial statements are prepared on the full accrual basis of accounting. Under the full accrual basis of accounting, expenditures are recorded when materials or services are received and revenues are recorded when earned. Revenues and expenditures of an academic term that encompass parts of two fiscal years, such as a summer session, should be reported totally within the fiscal year in which the program is predominantly conducted.

Fund Accounting System

The state of Montana accounts are organized utilizing a fund structure outlined in section 17-2-102, MCA. For financial presentation, these funds have been classified in accordance with generally accepted accounting principles.

-CURRENT FUNDS-

Includes economic resources expendable for instruction, research, public service, and the allied support programs which are not restricted by external sources or designated by the governing board for other than operating purposes. Sub-groups of the current funds group are as follows:

Unrestricted - funds received for which no stipulation was made by the donor or other external agency as to the purposes for which they should be expended.

Designated - accumulates costs that are subsequently recharged or allocated in total to other sub-funds and the resultant income; identifies financial activities related to special organized activities of educational programs wherein they are fully supported by supplemental assessments, and track special supplies and facilities fees that are approved for collection beyond normal course fees.

Auxiliary - exists to furnish goods or services to students, faculty, or staff through a fee charged for the cost, although not necessarily equal to the cost of the goods or services. The revenues are derived directly from the operation of the auxiliary enterprise itself.

Restricted - funds available for financing operations which are limited by donors and other external agencies to specific purposes, programs, departments, or schools.

-AGENCY FUNDS-

Includes resources held by the institution as custodian or fiscal agent for individual students, faculty, staff members, and organizations.

-PLANT FUNDS-

Includes funds expended for institution properties for the current and prior periods.

Inventories

Assets are normally not recorded for supplies inventory, but are expensed at the time of acquisition.

Merchandise inventory, which consists of the bookstore items, is valued at FIFO.

Accounts Receivable

Based on past experience of collectibility, the accounts receivable balance shown on the accompanying balance sheet does not include an allowance for doubtful accounts.

Vacation and Sick Leave

Expenditures are not recorded for annual vacation and sick leave costs until the leave is taken. Classified or support and administrative employees are allowed to accumulate and carryover into 90 days of a new calendar year a maximum of two times their annual accumulation of vacation.

Upon termination, qualifying classified employees having unused accumulated vacation and sick leave are paid 100 percent for vacation and 25 percent for sick leave. Teacher/administrative employees receive lump sum payments in accordance with contract provisions. The liability amount associated with unused accumulated vacation and sick leave at June 30, 1981 is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

2. EMPLOYEES' RETIREMENT SYSTEMS

The center's employees are covered by the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). The state contributes 6.2 percent and 6.312 percent of an employee's gross wages to PERS and TRS, respectively. The employee contributes 6 percent and 6.187 percent, respectively. Total pension contributions incurred by the center during fiscal year 1980-81 were \$10,317 to PERS and \$67,814 to TRS.

The state's policy is to fund accrued pension costs. At June 30, 1980 the Public Employees' Retirement System was actuarially sound, while the Teachers' Retirement System was actuarially sound at June 30, 1979. The unfunded past service costs and the actuarially computed value of vested benefits were not readily available for members of the plans employed by the center.

3. BUILDING AND LAND

The school district purchased the center's land, and a portion of their buildings. The buildings were financed with state and federal funds and a local school district bond issue for a total facility construction cost, including land, of \$2,965,250. Depreciation on physical plant and equipment is not recorded by the center.

4. BUDGETARY REPORTING

The annual appropriations process for planning and controlling financial operations is set for each fiscal year of the biennium by the Legislature. At the end of each fiscal year the center's appropriations revert to the fund of original appropriation and may be spent for valid prior year obligations.

Budget amendments may be obtained to spend funds that were not available for consideration by the legislature but have become available from sources other than the state's General Fund or Earmarked Revenue Fund.

Appropriations of the center were established within the following areas:

1. Personal Services
2. Operations
3. Capital Expenditures

5. ACCOUNTING CHANGE

In fiscal year 1980-81 the center changed their method of accounting from the cash basis to the accrual basis. The July 1, 1980 fund balance was restated to reflect this change. Consequently, the primary accounting records prior to fiscal year 1980-81 differ materially from the fiscal year 1980-81 accounting records.

6. LEASES

The center had lease rentals for leased facilities and equipment in fiscal year 1980-81. These rentals are recorded as expenditures over the lease term as they become payable. Commitments under these lease agreements, classified as operating leases, provide for the following minimum lease payments:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
1982	\$24,346
1983	22,400
1984	14,711
1985	-0-
1986	-0-
	<u>\$61,457</u>

The center also leases several typewriters with payments made on a monthly basis.

The following is a schedule, by year, of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 1981.

Year Ending June 30

1982	\$4,914
1983	4,248
Total Minimum Lease Payments	<u>9,162</u>
Less: Amount Representing Interest	(3,106)
Present Value of Net Minimum Lease Payments	<u>\$6,056</u>

HELENA VOCATIONAL-TECHNICAL CENTER
SCHEDULE OF FULL-TIME EQUIVALENT (FTE) STUDENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

<u>Quarter</u>	<u>Year</u>	<u>Number of Students</u> ¹	<u>Reported Contact Hours</u>	<u>Calculated FTEs</u> ²
Summer	1980	58	16,403	66
Fall	1980	725	237,204	949
Winter	1981	634	211,390	846
Spring	1981	611	197,471	790

¹ Includes full-time and part-time students.

² This is the reported student contact hours divided by 250 contact hours as required by Section 10.41.101 ARM.

HELENA VOCATIONAL-TECHNICAL CENTER
SCHEDULE OF FEDERAL GRANTS AND SUBGRANT RECEIPTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

<u>Grant Name and Number</u>	<u>Receipts</u>
Office of Education - Department of Health and Human Services Library Grant Grant #G008050930	<u>\$ 1,900</u>
-Subgrants from-	
1. Missoula Vocational-Technical Center Adult Basic Education - External Diploma Project Grant #81-56-6103-035SP	<u>4,172</u>
2. Office of Public Instruction Adult Basic Education - Federal Project #81-56-6102-0084 Local Match Subtotal	<u>48,799</u> <u>8,083</u> <u>56,882</u>
Adult Basic Education - State Project #81-56-6102-0029S Local Match Subtotal	<u>11,200</u> <u>2,000</u> <u>13,200</u>
TOTAL	<u><u>\$76,154</u></u>

The major difference between this schedule total and the amount of Federal Grants and Contracts reported on the Statement of Changes in Fund Balances is student financial aid funds.

AGENCY REPLIES



HELENA VOCATIONAL-TECHNICAL CENTER

HELENA PUBLIC SCHOOLS

(Serving Montana)

PHONE 442-0060

1115 ROBERTS — HELENA, MONTANA 59601

RECEIVED

JUN 10 1982

ALEX CAPDEVILLE
DIRECTOR

EINAR BROSTEN
FISCAL ADM.

JAMES J. THOMAS
ASST. DIRECTOR

June 8, 1982

MONTANA LEGISLATIVE AUDITOR

Mr. Robert R. Ringwood
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59601

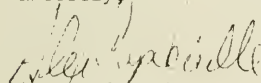
Dear Mr. Ringwood:

The Helena Vo-Tech Center and School District #1 have received the narrative and financial statement segments of your final report on our school. Attached you will find our response to each recommendation.

Since a separate audit report and recommendations have been issued for our financial aid programs, we have responded to each of those recommendations on a separate sheet headed "Financial Aid Recommendations."

We wish to take this opportunity to thank you and your staff for the helpful and cordial manner this audit was handled.

Sincerely,


Alex Capdeville, Ph.D
Director

AC/vt

HELENA VO-TECH CENTER
Audit Response - FY 80-81

RECOMMENDATION #1

Office of Public Instruction requirement.

RECOMMENDATION #2

Office of Budget and Program Planning requirement.

RECOMMENDATION #3

- A. The Helena Vocational Technical Center will comply with a written policy developed by the Office of Public Instruction for the computation of student contact hours. We understand that this policy is to be developed by the Office of Public Instruction.
- B. The Helena Vocational Technical Center will consistently compute contact hours once specific instruction guidelines are received from the Office of Public Instruction.

RECOMMENDATION #4

Helena School District #1 concurs.

RECOMMENDATION #5

- A. We concur and will comply.
- B. We concur and will be establishing a new inventory procedure for FY-83.

RECOMMENDATION #6

We concur and will comply by ensuring that expenditures are properly recorded in the same fiscal year as they are incurred. In addition, we will seek assistance from the Office of Public Instruction to establish a proper fund category for our obsolete equipment activity.

RECOMMENDATION #7

We concur and will comply by recording our Building Trades inventory as an asset.

RECOMMENDATION #8

We concur and will comply by working with the Office of Public Instruction to establish the appropriate administering agency for the following entities: Mileage and tuition, federal funds, primary operations pool, and all financial aid programs.

RECOMMENDATION #9

We concur and will comply by deferring any revenue not earned as of fiscal year-end.

RECOMMENDATION #10

We concur and will comply by establishing an accounts payable for any on-campus College Work Study payroll not paid as of fiscal year-end.

RECOMMENDATION #11

We concur and will comply by working with the Office of Public Instruction and the Department of Administration to develop new expenditure programs and budget categories.

RECOMMENDATION #12

We concur and will comply by working with the Office of Public Instruction to correct the initial recording of funds to the correct fund, and to correct those noted funds inappropriately designated as Restricted Funds, by changing them to either the Agency Fund, or the Current Unrestricted Funds as suggested.

RECOMMENDATION #13

We concur and will review our Building contents at the close of Fiscal Year 82 to determine an adequate coverage for Fiscal Year 83. Coverage for FY-82 was increased to properly cover all current contents.

RECOMMENDATION #14

The Helena Vocational Technical Center will work with the Office of Public Instruction to establish a policy that all Montana Vocational technical centers will follow to more thoroughly document student residency status.

We do feel, however, that a specific policy for non-residents attending vocational technical centers should be developed first. Once established and agreed upon, the Helena Vo Tech Center will follow and use that policy.

RECOMMENDATION #15

We concur and have already taken steps to close all non-treasury accounts involved and/or obtained permission from the Department of Administration to maintain the non-treasury accounts.

RECOMMENDATION #16

We concur and with assistance from the Office of Public Instruction, intend to seek legislation to maintain our own payroll system.

RECOMMENDATION #17

- A. We concur and have already begun our compliance.
- B. We concur and are reviewing our staff duties in order to find a solution.



OFFICE OF PUBLIC INSTRUCTION

STATE CAPITOL
HELENA, MONTANA 59620
(406) 449-3095

Ed Argenbright
Superintendent

RECEIVED

JUN 10 1982

MONTANA LEGISLATIVE AUDITOR

June 7, 1982

Mr. Robert R. Ringwood
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59620

Dear Mr. Ringwood:

This correspondence is issued in response to your request pertaining to the audit of the Helena Vocational-Technical Center - Examination of Financial Statements - Fiscal Year Ended June 30, 1981.

Responses will replicate recommendations followed by concurrence or disagreement with attendant action.

Recommendation #1

We (auditors) recommend the Office of Public Instruction revert the over-collected millage to the state general fund in accordance with House Bill 94.

Response: The Office of the Legislative Auditor has made this recommendation in concert with all Centers audited this year. The Office has instituted and assumed, at this writing, that not only the \$12,477 over-collection was reverted but the additional \$9,617 available to the Great Falls Center will also be reverted after the close of the 1982 fiscal year. Therefore, the Office of Public Instruction will revert a total of \$22,094.

Recommendation #2

We (auditors) recommend the Office of Budget and Program Planning comply with House Bill 483 and decrease the general fund appropriation for over-collections.

Response: The Office of Public Instruction agrees with the spirit of law provided in HB 483 but disagrees that general funds should be reduced. The OPI will converse with OBPP to establish reversion methods that do not adversely affect general fund appropriation levels which are currently based upon a modified FTE formula.

Recommendation #3

We recommend:

- A. The OPI work with the Center to monitor compliance for computation of student contact hours.
- A. Response: Policy has been established in the computation of contact hours dating from 1978. We (OPI) agree that closer monitoring may be necessary even though reports submitted by the Centers are in compliance with the policy at this date.
- B. The Center consistently compute student contact hours based on OPI instruction guidelines.
- B. Response: Internal consistency of computation for FTE at the Center is the responsibility of the Centers given the guidelines from OPI. The OPI agrees that consistency should be maintained within Centers as well as between Centers.

Recommendation #4

We recommend the school district comply with Section 20-9-204, M.C.A., and award contracts to the lowest bidder.

Response: The Office of Public Instruction concurs.

Recommendation #5

We recommend the Center:

- A. Value merchandise inventory on the cost and "First In-First Out" (FIFO) basis.
- A. Response: The OPI generally subscribes to the sound business practice noted above; however in practical application the purest use of cost and first in-first out may not be practical. In example: Texts used from year to year may be in inventory but not in sufficient numbers to accommodate enrollments. When additional texts are ordered, often the cost is higher than those in stock and students therefore are required to pay a higher price for the same text due to lack of sufficient inventory. It would seem appropriate therefore that the book-store operation be given the option of raising inventorial texts or reducing new text costs to retain equal expenditures

on the student's part, neither of which fits the pure application of costs and FIFO.

At best, the bookstore operation should be held to a break-even concept while yet providing students with equitable pricing.

Not to allow some flexibility in pricing may require extensive inventories in order to avoid student conflict over differing prices for the same text.

B. Maintain accurate perpetual inventory records.

B. Response: OPI concurs with respect to bookstore operations.

Recommendation #6

We recommend the Center properly record expenditures in accordance with generally accepted accounting procedures.

Response: OPI concurs.

Recommendation #7

We recommend the Center record significant building trades inventory as an asset in accordance with GAAP.

Response: OPI concurs.

Recommendation #8

We recommend the Center work with the OPI to establish appropriate administering agencies for its accounting entities.

Response: OPI concurs.

Recommendation #9

We recommend the Center defer all applicable revenue at fiscal year-end in accordance with state policy.

Response: OPI concurs.

Recommendation #10

We recommend the Center properly record a liability for its share of the college work-study payroll at fiscal year-end.

Response: OPI concurs.

Recommendation #11

We recommend the Center, in cooperation with the Office of Public Instruction and the Department of Administration, develop expenditure programs and budgets in compliance with generally accepted accounting principles.

Response: The OPI is currently working with the Legislative Fiscal Analyst Office at the direction of the Legislative Interim Vocational Education Study Committee to revise the expenditure and budgets for the Centers wherein program level expenditures will be the basis for future budgets. The Legislative Auditor's Office and Department of Administration will be consulted in the process.

Recommendation #12

We recommend the Center, in cooperation with the Office of Public Instruction, ensure that their fund structure is in accordance with generally accepted accounting principles.

Response: OPI concurs.

Recommendation #13

We recommend the Center maintain adequate fire insurance coverage on its building contents.

Response: OPI concurs.

Recommendation #14

We recommend the Center:

Work with the Office of Public Instruction and establish a policy to more thoroughly document student residency status.

Response: OPI concurs.

Recommendation #15

We recommend the Center deposit all moneys in the state treasury or obtain permission from the Department of Administration to allow the moneys to be held outside the state treasury.

Response: Title 20-7-321 (2) does not specifically require all moneys to be deposited in the treasury. The clause "unless the source of the money specifies deposit somewhere other than in the state treasury" was intended to allow for occasions wherein Centers may receive donations with specific directions attached. The OPI does not, therefore, concur that permission to hold moneys should be complicated by formal requests and further notes that school districts (of which Centers are a part of) may hold in trust, acquire and dispose of real property . . . (20-3-324, MCA)

Recommendation #16

We recommend the Center comply with the Legislature's intent that vocational-technical centers be on central payroll or seek legislative authorization to maintain their own payroll system.

Response: The OPI will seek legislation to allow the Centers to maintain their own payroll system.

Recommendation #17

We recommend the Center:

A. Deposit cash in compliance with state law.

A. Response: OPI concurs.

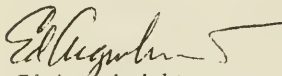
B. Adequately separate cash collection and deposit duties.

B. Response: OPI concurs.

Robert R. Ringwood
June 7, 1982
Page Six

The Office of Public Instruction wishes to express its appreciation to the Office of the Legislative Auditor for the services rendered in assisting the Center in achieving better management concepts and efficiencies.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Ed Argenbright', followed by a long horizontal flourish.

Ed Argenbright
State Superintendent

hd

cc: Gene Christiaansen
Maynard Olson
Roger Eble
Alex Capdeville
Tom Chesbro

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING



TED SCHWINDEN, GOVERNOR

CAPITOL BUILDING

STATE OF MONTANA

(406) 449-3616

HELENA, MONTANA 59620

June 8, 1982

RECEIVED

JUN 11 1982

MONTANA LEGISLATIVE AUDITOR

Mr. Robert R. Ringwood
Legislative Auditor
State Capital
Helena, MT 59601

Dear Mr. Ringwood:

This letter is in response to the audit of the Helena Vocational - Technical Center for fiscal 1980-81.

Recommendation No. 2

We concur with the intent of the recommendation. However, we believe that at the Vocational - Technical Centers, where various funds are combined in a pool account, it would be better to consider any cash balance left in the pool at the end of a fiscal year as general fund. After fiscal-year-end, this cash should be transferred to the general fund.

Sincerely,

A handwritten signature in cursive script that reads "David M. Lewis".

David M. Lewis
Budget Director

